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FARM INCOME, BENEFIT PAYMENTS AND PROCESSING TAXES

Address of Alfred D. Stedman, Assistant Administrator of the Agricultural Adjustment Act, at the American Association of Agricultural College Editors' meeting, University Farm, St. Paul, Minnesota, Wednesday afternoon, July 25, 1934.

It is pleasant to be invited here, to my home State, to talk with you about the Agricultural Adjustment Administration.

The thing about it that interests us all the most is the Adjustment program's effect upon farm buying power. That yardstick measures agriculture's progress. To a considerable extent, it also reveals the rate of the national advance out of depression.

To trace in simple terms the Agricultural Adjustment Administration's effects upon farm income involves discussing the relationship between farm prices, benefit payments and processing taxes. They are the ABC's of the Three A's.

I want to talk a good deal about that later.

But interesting as they are, the facts and figures of the fall and rise of farm income are not more so than the human side of the story.

Out here in the West, these things mean something more than mere lines on a chart. More money means new clothes, paint, fences and machinery for the farmer, badly needed new dresses for the farmer's wife, shoes for his boy. These purchases mean business, work for eastern factories, and better markets for eastern agriculture which depends for its welfare upon the buying power of its adjacent industrial centers.

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Then, too, one could tell the story of the Northwest's fight for farm legislation in terms of the efforts of men.

Some day somebody should write that history. You remember how those opposed to agriculture's effort scoffed and stormed when, in the early 20's, farmers began demanding federal government help to meet the problem of the surplus.

That demand developed into the fight for the McNary-Haugen bill. Chester Davis was in the thick of that fight. Henry A. Wallace was writing and speaking in support of it. George Peek was one of the organizers. And M. L. Wilson was there, with others of your Northwest men who saw that prices of basic farm products were being held down by surpluses which fixed the price.

These men fought and were beaten. Their defeat, coming with the second veto of the McNary-Haugen bill in 1928, was sealed with the election that year.

You remember that the McNary-Haugen bill proposed to relieve domestic markets of farm surpluses by exporting them. The farmers were to pay the cost themselves with the equalization fee.

The grave consequences of their defeat became apparent in 1930. Congress enacted the Smoot-Hawley tariff Act. That Act boosted American tariffs and invited retaliation from Europe. Higher tariffs, embargoes and import quotas closed the doors of foreign markets upon American farm surpluses. The chance of raising our domestic prices by stimulating farm exports by the McNary-Haugen bill was lost. And the farmers, by that time in the full throes of depression, were too poor to pay even an equalization fee. Farm Board accumulations of wheat and cotton failed to stop the

collapse of prices. Agriculture was prostrate. Finally, 1932 found prices borne down with a double carryover of wheat, twice or three times the normal world supply of American cotton, production of hogs as high as if foreign markets still existed, vast supplies of tobacco and numbers of beef and dairy cattle rising to record heights.

That was why, on May 12, 1933, the Agricultrual Adjustment Act became a law. Since we had lost our export outlets, the new law provided machinery for adjusting production at home. And instead of the equalization fee intended to be paid entirely by farmers, the processing tax was provided, to be paid largely by consumers.

The men who led that losing fight for the McNary-Haugen bill still are fighting for the farmers. They are in the government, guiding its efforts in behalf of agriculture--Secretary Wallace, Administrator Davis, Assistant Secretary Wilson and George Peek, special adviser to the President in efforts to win back some of the lost world trade.

Under the Agricultural Adjustment Act increasing farm buying power is to be accomplished in two ways. The first way is through the influence of better balance of supply with demand in raising the open market price of basic commodities. The second method is through payment of benefits to farmers who cooperate in making the adjustments of supply needed to support price improvement. Thus the two methods are inter-acting.

The whole plan of seeking price increases by production adjustment, accomplished through cooperation compensated for by benefit payments, is financed by receipts from processing taxes. These taxes, levied on the first processor and ordinarily passed on to the consumer, supply the funds to carry on the operation.

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This Act was designed to relieve the existing national economic emergency--not the farm emergency alone. It was designed to put back to work in factories and cities some four million workers who had lost their jobs because farmers were no longer able to buy the goods and services that these city workers produce.

A birdseye summary of the accomplishments in the 14 months since the Act was signed must list as most vital the fact that 3,000,000 farmers have signed contracts and are cooperating with the Administration in adjustment programs. This is the most dramatic and widespread single cooperative movement ever known among farmers anywhere. The participation of these farmers in management of their own production problems, through their own production control associations, is a democratic activity so great that the outpouring of millions at the polls on election day alone is comparable. The successful part of these programs in reversing the price trend and increasing farm income rests mainly upon the fact of the cooperation of these three million farmers. The farmers have made substantial voluntary adjustments in production of wheat, cotton, corn and hogs and tobacco. Due to these adjustments and, particularly in the case of wheat, to drought, and also to purchases of surplus products to feed the unemployed, farm markets have been gradually relieved of much of the excess supplies which weighed them down.

So, through the agricultural problem which was many years in developing to its worst stage in 1932, is still far from solved, substantial improvement has taken the place of the downward plunge.

As contemplated by the Act, both the benefit payments to farmers cooperating in adjustments, and price increases resulting from those

adjustments have been important factors in increasing farm buying power. Since distribution of benefit payments began in August, 1933, until April, 1934, farm cash income was $4,199,000,000 an increase of $1,165,000,000 over that of the similar 9-month period a year before. This increase was great enough to more than offset rising prices of commodities purchased by farmers. Taking these higher prices of things bought by farmers into consideration, agriculture still had a 25 per cent net increase in buying power in that period. The rate of growth in farm buying power was twice the rate of income recovery for the nation as a whole.

The importance of benefit payments in farm improvement is shown more specifically by the gains made by producers of the basic commodities, and particularly the income increases on the share of these products consumed in this country. For these there was a 100 per cent increase in price including benefit payments from March, 1933, to June, 1934, and their purchasing power was 70 per cent greater than in March, 1933.

Up to July 17, the final date for which I have the figures, the total rental and benefit payments paid to farmers was $285,921,940.

The producers cooperating in adjustment payments now therefore are receiving their income in two parts. The first part is paid at the market when the farmer sells his commodity. Market prices of farm commodities have risen under the impetus of the agricultural program, dollar devaluation and the increasing consumer buying power resulting from reviving employment under NRA codes and PWA and CWA work projects.

In order to bring home to you a picture of what is happening, I have assembled some figures to show regional improvement in nine

agricultural States of this area.

Please do not misunderstand me as making any contention that the fight for farm recovery is won. Far from it. As a matter of fact, the farmers with 25 per cent of the population, now are receiving only about 8 per cent of the national income. Their share could be increased 4 or 5 billion dollars more, say to 12 or 13 per cent of the total, before anybody could have any basis for such a claim as that.

I am simply saying that things are on the upgrade, that measurable improvement has been attained, and that in place of hopeless and helpless abandonment of agriculture to the forces of depression, we now have begun to fight our way back toward recovery.

This gain has been made in spite of one of the most devastating droughts in history. It has been made partly through the benefit payments which, because of their amount is not affected by current crop failure, now serve as the greatest crop income insurance plan ever operated anywhere, assuring farmers some continuity of income despite crop failure, and by giving them a chance for a new start, assuring continuity of production to feed the nation in future years.

Because they are of special regional interest here, I have had figures compiled to cover the nine States of Minnesota, Iowa, North Dakota, South Dakota, Wisconsin, Nebraska, Missouri, Kansas and Montana.

In this block of nine States production of wheat for the year 1934 was indicated on July 1, as 223 million bushels. This is about 18 per cent less than last year. The value of last year's crop was estimated at 145 million dollars on December 1, 1933. Using June 15, 1934, farm prices for the various States as a basis, the value of the 1934 crop, despite

reduced production, remains as high as last year. Price increases have equalized the valuation for the two years.

For Kansas, Missouri and Montana, the valuation for 1934 is higher than that for 1933, even if benefit payments are excluded.

In other words, in spite of drought which has hit wheat about as hard as any cash crop, these States will not suffer any wheat income loss, on the basis of June 15 prices.

Although it is too early to forecast the final returns to be made by farmers in this region from other crops, indications are that in spite of drought, there will be substantial improvement this year over 1933.

The Agricultural Adjustment Administration benefit payments, financed by processing taxes this year will make a much more important contribution to the income of this region than in 1933. The corn-hog benefits are to be particularly important, and wheat will be substantially the same as for 1933.

Following is a table showing the estimated rental and benefit payments for 1934 in this block of nine States in connection with the corn-hog, wheat, tobacco and cotton programs. This AAA estimate shows a contribution of almost 250 million dollars this year by benefit payments to the farm income of these nine States.

ESTIMATED RENTAL AND BENEFIT PAYMENTS FOR 1934 IN CONNECTION WITH TOBACCO, CORN-HOG, WHEAT, AND COTTON PROGRAMS IN SELECTED STATES:

STATE	Tobacco	Corn-Hogs	Wheat	Cotton	Total
Minnesota	$ 70,000	$15,000,000	$ 1,950,000	$	$17,020,000
North Dakota		3,600,000	14,500,000		18,100,000
South Dakota		14,000,000	5,100,000		19,100,000
Wisconsin	1,200,000	8,000,000	40,000		9,240,000
Iowa		75,000,000	440,000		75,440,000
Nebraska		30,000,000	5,900,000		35,900,000
Kansas		16,000,000	24,600,000		40,600,000
Montana		500,000	6,400,000		6,900,000
Missouri	280,000	24,000,000	1,500,000	2,573,000	27,073,000
	$1,550,000	$187,100,000	$60,430,000	$2,573,000	$249,373,000

In order to get the picture still more clearly let us see what the State totals for 1934 look like. Following is a summary table showing the State by State estimated totals of benefit and rental payments in the four commodity programs for each of this block of nine States:

Minnesota	$ 17,020,000
North Dakota.	18,100,000
South Dakota.	19,100,000
Wisconsin	9,240,000
Iowa.	75,440,000
Nebraska.	35,900,000
Kansas.	40,600,000
Montana	6,900,000
Missouri.	27,073,000

Due to the delays which now have become famous, only about 50 million dollars of this total had gone out to farmers up to June 30 and nearly 200 million dollars in checks remained to be sent into this region on that date. But Chester Davis has worked night and day to whip the machinery into faster motion, and the checks are moving much more rapidly now.

Bearing in mind that the farmer's income now is coming to him in two parts--price and benefit payments--that prices are better and that a quarter billion contribution is coming into these nine States this year in benefit payments alone, you can see how important the Adjustment program is, not only to Northwest farmers, but to business and industry of this region, and to the industrial activity of the manufacturing centers elsewhere whose prosperity is not local but is determined by the buying power of the whole country.

I happen now to be speaking particularly of the Northwest group of States. But our work here is comparable to efforts which last year doubled the cotton income of the South. We have made the best contribution of which we have been capable to the farm income of every major agricultural group, regardless of location. The depression above all things has taught us the inter-dependence of all the great economic groups. Recovery to be real must come as a result of a national effort.

In the South, where the benefit payments first began to go out, business in towns and cities has improved. Business is better in factories, in stores, in banks and in the offices of the tax collectors in the county court houses. The improvement has gone far beyond the geographical limits of the Southern States. It has been felt in the textile and shoe factories

of New England; in the Farm implement plants in Illinois and Indiana; in the automobile industry, the lumber industry, the paint industry.

I have chosen the Cotton Belt as the most outstanding demonstration of the national effect of awakening farm recovery. Those of you from the Wheat Belt have seen the same phenomenon taking place in your own region. Those of you from the Corn Belt will see it this summer as the flow of 130 million dollars in the first installment of corn-hog payments reaches the peak.

Commenting on the place of the processing tax in the Adjustment plan, Administrator Davis recently pointed out that nearly one-third of the income from production of wheat, corn-hogs, cotton and tobacco allotted under the adjustment programs now being received on the average by 3 million contract signers is derived from processing taxes.

These taxes are essentially a conversion charge. They are not retained by the government as revenue, but are paid over virtually in entirety to the farmers.

Efforts have been made by those fighting farm legislation to show that these processing taxes are paid twice. They tell farmers that they pay the tax, and then to consumers say the opposite. Some have even sought to propagate the fiction that, in states where processing plants are concentrated, the heavy collections show that these states are paying the tax. But collection of 19 million dollars wheat tax in Minnesota merely means that this is a point of collection--that flour mills are concentrated in Minneapolis. People all over the nation, in every state and city where Minneapolis flour is used pay their share of the tax. But the tax is collected through these great mills in Minneapolis. That is all. The

cotton and wheat taxes are passed on to the consumer and the tendency of hog taxes to be passed on increases as production adjustment takes effect.

One of the bright spots in the Northwest outlook is improvement in the corn-hog situation. It is interesting in this connection to compare the cattle growers' returns with those of hog growers. In the past five months, the marketing of cattle has grown 24 per cent in volume, but has yielded only 37 per cent greater money return. The improvement in beef prices has been only about 11 per cent. This is a somewhat better market price advance than that scored by hogs because hog prices, despite the processing taxes, also have averaged higher since the tax was levied than they did the year before. But the cattle market price represents the total return to the producer whereas hog growers will get their substantial benefit payments in addition to the market price. So the corn-hog program means a big advantage to the hog producers.

The nine States of which I have been speaking had on June 1 more than four-fifths of the nation's pig crop.

The improvement in income from hogs, contributed by market price plus processing taxes, therefore, is of first importance to them. During the first five months of 1934 the packers bought 5 per cent less weight of hogs than in the same period a year ago, and they paid, including processing taxes, 45.6 per cent more for their purchases. All of this increase of 80 million dollars goes to the farmers. In addition to this gain, the farmers saved substantially because of the smaller cost of producing, handling and marketing a smaller volume of hogs.

This is a point about the hog tax and benefit payments which is beginning to get into the newspapers. Recently it was brought out by one of the journals which features discussions of the processing tax. This

particular article was published in the Chicago Tribune July 10. It is exceedingly interesting and I will read it all:

"WIDOW GETS 68 CENTS FOR 20 LITTLE PIGS

"Charles Tyrrell drove out recently to Mrs. A. Mosback's farm, outside Cortland in De Kalb county, to see if she could pay him two dollars for whitewashing her barn. He found Mrs. Mosback, a widow who has run her own farm since her husband's death, weeping.

""Look", she said through her tears, "what I got for my pigs--the pigs I nearly broke my back carrying slop to".

"She showed him a check. It was for 68 cents, drawn by the Chicago Producers Commission association at the Union Stockyards. Attached to it was slip showing that the commission concern, a farmers' cooperative, had sold Mrs. Mosback's twenty pigs, weighing 1,630 pounds to the Shenandoah Packing company, at Shenandoah, Pa. The pigs had brought $12.22, and from that there had been deductions of $11.54.

""You just forget about that whitewashing", said Tyrrell. "And if I were you I'd frame that check in the parlor".

"Mrs. Mosback's pigs were sold for 75 cents a hundred pounds. But before they became pork, the Shenandoah company must pay the government $2.25 a hundred pounds, or just three times what it paid Mrs. Mosback, as processing tax. Packers have been virtually unanimous in asserting that the processing tax comes out of the pocket of the farmer, since they can't absorb it and can't pass it on to the consumer in the form of higher retail prices.

"Officials of the commission house which marketed Mrs. Mosback's pigs explained yesterday how she came to get such a low price, and

how what she did get was eaten up by the marketing price. Her pigs, they said, were sold during the height of distress caused by the drouth, when farmers were rushing their hogs to market for lack of feed.

"Also, they were sold as cull pigs. They averaged 81½ pounds. There is nothing much you can do with a pig of that size unless some one wants to buy him and fatten him some more, and because of the drouth, there was little market then for feeder pigs.

"Such a pig, they said, is too big to be roasted whole and he's too small to put into regular pork. About all that can be done is to make sausage of him, and he's not even particularly good for that.

"That, they said, was why Mrs. Mosbeck got only $12.22 for her pigs. This is what became of most of the money. The stockyards company took $2.80, or 14 cents a pig, for the use of its pens, runways, and scales. It also charged 55 cents for feeding the pigs half a bushel of corn, which is just about twice what that much corn costs out in Cortland.

"Then there was $1.40 to insure the pigs against injury on their way to the yeards, and five cents more to insure then against being burned up if another stockyards fire had started while they were there. The trucker who hauled them to Chicago chaiged $3.67, and the commission house $3.00, or 15 cents a pig, for selling them. Then there was a seven cent charge to the meat board, which spends the money on advertising to convince people that they should eat more meat. The deductions ate up all but the 68 cents of the sale price, leaving Mrs. Mosback three and a quarter cents a pig for raising them.

"But if Mrs. Mosback signed one of the agricultural adjustment administration's corn-hog contracts, agreeing to reduce her corn acreage,

and the number of pigs on the farm, she may still get enough money to enable her to break even on the twenty pigs.

"Farmers who signed such contracts, agreeing to cut their hog production 25 per cent, will get a $5 bonus on each of the hogs that they do raise and sell. The payments, financed by the processing tax, were scheduled to have started some time ago, but Illinois farmers have yet to receive their government checks.

"If Mrs. Mosback signed such a contract, her books will show at the end of the year that she made 68 cents by raising twenty pigs, and $100 by not raising six and two-thirds pigs."

That story tells a lot. It emphasizes the savings possible on marketing and handling charges by holding down volume to avoid market gluts. It hints at the reasons for our pig buying program of last year. It gives one packer version of the processing tax--you will note that the story failed to mention that the $100 benefit payment was made with funds from the $2.25 processing tax. And it tells of the superior advantages of benefit payments.

Now, of course, there is no magic about benefit payments. Somebody has to pay for them, just as somebody has to pay higher farm prices whenever prices rise. Also there are administrative costs to be deducted from them, too, averaging perhaps 3 or 4 per cent. But an enormous share of even this minor expense stays right in the country to pay for work done by the farmers' own representatives in the counties. After this administrative cost is met, all the benefit payment goes to the farmer in a good cause--that is to assure future prices much better than those paid in glutted markets for the Widow Mosback's pigs.

So the benefit payments do have impressive advantages.

A benefit check does not have to pay anything for pens, runways or scales. A benefit check does not have to pay for insurance against injury on its way through the yards. It does not have to be insured against any future stockyards fire. There is no trucking charge against benefit checks, and no commission fee to pay. Benefit payment checks do not eat fancy priced corn, nor are they subject to deductions to finance any meat board. The benefit payment has all these points in its favor. It is all cash in the farmer's pocket, while a market price sometimes may be just a figure on paper from which to make deductions.

But for all that the mistake must not be made of estimating the value of the adjustment program merely in terms of benefit payments. The greatest value is to come from achieving and maintaining a better balance of production with demand, so that the farmers may not again suffer the devastating effects of ruinous prices borne down by tremendous oversupplies. A reduction of supply which avoids a glut in the market works geometrically in favor of the farmer. Economists calculate that a 10 per cent reduction in hog marketings results in a 20 per cent increase in price. And as for wheat, the farmers in 1933 received 170 million dollars more in income for producing 200 million bushels less wheat. The results thus far are such as to show that the start made by the farmers in production adjustment must be maintained. What we all want is more progress, not a slump back into the farm depression.

By insuring farmers a continuous income during drought, by sustaining industry and business despite reverse and by encouraging continuous production, the adjustment program has demonstrated its value during drought.

But drought should not deceive us merely because it temporarily reduces surpluses. Weather conditions tend to average themselves out. The creation of the large surpluses was due to known factors--transition from debtor to creditor nation, loss of foreign markets for exports, use of motors instead of horses and mules and loss of the market draft animals once provided for grain. Not one of these factors is removed by drought. All of them still are present. Of course, the farmers always want to produce up to the best potentialities of their market, and when drought cuts supply, more acreage temporarily can be planted. But to be deceived by drought into discarding all the controls might, after a year or two of good crops, bring back the very emergency we have temporarily alleviated. The enduring objective should be to avoid the devastating upward and downward swings of production which have injured farmers, but to bring a gradually expanding production that will provide for the greater needs of a richer society.

The controls should be maintained, with greater and greater emphasis as time goes on, upon the economic use of land, proper rotation, protection from erosion, long-time conservation of the priceless resources of soil fertility, and the government acquisition and permanent retirement of submarginal lands from crop production. Having had a taste of the advantages of the adjustment program, the farmers will want not to let it go, but to improve and perfect their cooperative control of production, to consolidate their gains and make more advances in the future.

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